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GROSS CHARGE OF FAVORITISM

From The Register's
Washington Bureau

WASHINGTON, D.C. — Representative H. R. Gross (Rep., Ia.) charged Wednesday that a broad pattern of political favoritism is starting to develop in connection with loans from the Small Business Administration, foreign aid transactions and government contracts.

The Iowa Republican told the House that a recent Economic Development Administration loan to a luxury motel in Corpus Christi, Tex., had many of the "same characteristics" as a controversial Small Business Administration loan in Alaska.

Democratic Figures

Representative Gross noted that in both instances there were Democratic political figures involved in the businesses receiving the loans. Also, he noted that in both instances the low-interest loans from the government agencies made it possible for the political figures to pay off loans from private financial institutions where the interest rate was considerably higher.

Representative Gross said it appeared to him that L. Donald Pruhs, a member of the Democratic Central Committee in Alaska, "must have had a pipeline to what the Democrats in Texas were doing."

Gross noted that Pruhs was able to obtain a Small Business Administration loan of \$890,000 carrying 3 per cent interest, and pay off a \$420,000 bank loan that carried 8 per cent interest.

The Iowa Republican said that Pruhs was able to use the Small Business Administration for his Golden Nugget Motel after a prominent Texas land developer, with Democratic connections, had

arranged a \$410,000 "depressed area" loan from the Economic Development Administration in the Commerce Department.

Luxury Motels

Gross said it was interesting to see that the \$410,000 loan to Robert H. Flato and his associates was for a luxury motel in a resort area, and that it permitted them to pay off a conventional bank loan at 7 to 10 per cent with government money borrowed at 4½ per cent interest. Flato is a former campaign manager for Representative John Young (Dem., Tex.).

Representative Gross declared that he has under study some other instances of Democratic political figures who have been involved in obtaining loans from the Small Business Administration and from the Federal Housing Administration.

In Office

The Iowa Republican said that he has already been able to establish that some Democratic political figures were holding government office when they were owners or officers in corporations seeking federal loans for business enterprises.

"I'll have more to say on some of those cases later," Gross said.

In speaking about "the pattern" of what appears to be "political favoritism" in the actions of government agencies, Representative Gross again called attention to the fact that the Small Business Administration gave a "certificate of competency" to a Two Harbors, Minn., firm, Universal Fiberglass Corp. despite adverse reports by technicians and financial experts of both the General Services Administration and the Small Business Administration.

\$13 Million

The granting of the certificate of competency made it necessary for the GSA to award a \$13 million contract to the Universal Fiberglass Corp.

Gross Wednesday called attention to the fact that the Rand Development Corp., of Cleveland—parent firm of Universal Fiberglass—has been involved in a number of questionable transactions that have been the subject of critical action by the Justice Department, the Securities Exchange Commission

(SEC), the Federal Trade Commission (FTC) and the Interior Department.

This is the firm headed by James Rand and George H. Bookbinder, of Cleveland. Rand, president of the firm, and Bookbinder, vice-president, are close personal friends and political supporters of Vice-President Hubert H. Humphrey, and Representative John Blatnik (Dem., Minn.).

Gross noted that Rand Development Corp. was criticized by the SEC in connection with activities of its officers in promoting stories that indicated the firm had developed the first cancer cure.

Officials of the firm were identified in court proceedings as having taken an active part in promoting stories about the cancer cure that caused a boom in the firm's stock. Also, the testimony indicated that several of the officers sold the stock to cash in on the boom generated

by the indications that a cancer cure had been found.

Court Order

Both the FTC and the Justice Department took action against the sale or distribution of the so-called "cancer cure." The Rand Corp. is now barred by court order from manufacturing, or distributing the so-called "cancer cure."

However, the firm has continued to do business with other government agencies including the Central Intelligence Agency (CIA) and the Interior Department.

The Rand Development Corp. has contracts with the Interior Department that have been the subject of dispute in recent weeks. Representative Gross has revealed that the Rand Development Corp. was charging costs of a two-bedroom New York apartment to a water pollution research contract with the Interior Department.

Start Probe

The Interior Department has reported in the last few days that it has an investigation under way to determine if officials of the Interior Department used the New York apartment.

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Secretary of Interior Stewart Udall ordered the inquiry after it was learned that there was congressional interest in testimony given by Bookbinder that the apartment had been made available to "a number of people in government, some as high as an assistant secretary of state."

There has been no identification of the high government officials who have used the Rand Development Corp. apartment. Gross has criticized the fact that Rand charged \$3,195 of the \$4,260 annual rental for the apartment to the government. He has also criticized the fact that the government was being charged for extensive entertainment costing \$15,364, and telephone calls totaling more than \$23,000.

Similar Costs

The Interior Department first challenged a major part of the \$461,000 in expenses Rand charged in carrying out the contract, but later permitted the firm to charge much of the costs to the government on the theory that similar costs had been allowed by the Defense Department's defense contract audit agency.

However, the Interior Department has served notice that it will not permit the charging off of further expense on the New York apartment to the water pollution control contract.